

Report
of the
Examination of
WMAC Credit Insurance Corporation
Madison, Wisconsin
As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

October 10, 2003

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

WMAC CREDIT INSURANCE CORPORATION
MADISON, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the WMAC Credit Insurance Corporation (WMAC Credit or the company) was conducted in 1999, as of December 31, 1998. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is exempt from an annual review by an independent accounting firm as prescribed by ch. Ins 50, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

The company was organized on November 10, 1980, as MGIC Credit Insurance Corporation, to assume second mortgage guaranty risks that were written on a direct basis by AMBAC Indemnity Corporation ("AMBAC"), formerly MGIC Indemnity Corporation. On February 28, 1985, the company's former parent, Wisconsin Mortgage Assurance Corporation ("WMAC"), was placed into liquidation as a result of bankruptcy proceedings of its former indirect parent, Baldwin-United Corporation. Concurrent with the liquidation of WMAC, the company was placed into rehabilitation, under the control of The Office of the Commissioner of Insurance, and was allowed to run-off its existing book of mortgage guaranty insurance policies on second mortgages. The company has not written any new insurance risks since February 28, 1985. Prior to August, 2001, the company was a wholly owned subsidiary of WMAC Investment Corporation, an affiliate of Leucadia National Corporation. On August 6, 2001, PMI Mortgage Insurance Company acquired 100% of the company.

The company is licensed to write credit insurance in the states of New York, Tennessee, and Wisconsin. Pursuant to s. Ins 6.75(2)(j), Wis. Adm. Code, junior lien mortgages may be written under the credit insurance line of authority. At year-end, the company reported a premium written of \$1,201 in four states, with no premium written in New York, Tennessee or Wisconsin. Premium written in states where the company is not licensed represents second mortgage risks that were assumed by the company from AMBAC through a portfolio transfer.

The following table is a summary of premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	<u>\$1,201</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,201</u>
Total All Lines	<u>\$1,201</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,201</u>

The run-off of the company's business during the years under examination and the resultant decrease in premium volume is reflected in the following table:

	1999	2000	2001	2002
Gross premiums written	\$2,270	\$1,391	\$1,478	\$1,201

The company continues to run-off its existing business. As of December 31, 2002, the company had 43 policies in force.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 14 members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Walter R. Houghton Alamo, CA	Chairman of the Board & Chief Executive Officer	2004
Larry S. Smith Alamo, CA	Vice Chairman of the Board, President COO	2004
Victor J. Bacigalupi Pleasant Hill, CA	Senior Executive Vice President, General Counsel and Secretary	2004
Charles F. Broom Fremont, CA	Senior Vice President, Human Resources & Organizational Development	2004
Walter E. Campion Danville, CA	Senior Vice President, Servicing Operations, Loss Mitigation and Claims	2004
Glen S. Corso Lafayette, CA	Senior Vice President, Investor and Corporate Relations	2004
David H. Katkov Moraga, CA	Executive Vice President, National Accounts, Product Development	2004
Donald P. Lofe, Jr. Lisle, Illinois	Executive Vice President, Chief Financial Officer, and Assistant Secretary	2004
Janet W. Parker Oakland, CA	Senior Vice President, National Underwriting Operations	2004
John M. Parsley Danville, CA	Executive Vice President, Field Sales	2004
Daniel L. Roberts Alameda, CA	Executive Vice President, Chief Information Officer, Corporate Technical Solutions	2004
Rhoda R. Rossman Albany, CA	Senior Vice President & Treasurer	2004

Brian P. Shea Berkeley, CA	Vice President & Controller	2004
Anthony D. Shore Elkins Park, PA	Vice President, Assistant General Counsel & Assistant Secretary	2004

Officers of the Company

The officers of WMAC Credit are appointed by the board of directors to serve a one-year term. Each officer of WMAC Credit is an officer of the holding company's parent. Each officer of WMAC Credit also holds the corresponding position in Commercial Loan Insurance Corporation. The two mortgage guaranty insurers have a shared corps of executive officers.

The officers serving at the time of this examination are as follows:

Name	Office	2002 Compensation
W. Roger Haughton	Chief Executive Office & Chairman of the Board	\$1,797,496
L. Stephen Smith	President & Chief Operating Officer	958,990
Victor Bacigalupi	Executive Vice President & Secretary	606,400
David Katkov	Executive Vice President	*
Donald Lofe, Jr.	Executive Vice President & Chief Financial Officer	*
Rhoda Rossman	Senior Vice President & Treasurer	*
Brian Shea	Vice President & Controller	*
Anthony Shore	Vice President	*
Mary Bagala	Assistant Secretary	*

*The officer's compensation amount is not reported on the most recent Executive Compensation Report. Further discussion regarding the company's Executive Compensation Report can be found in the section of the report captioned "Summary of Current Examination Results."

Committees of the Board

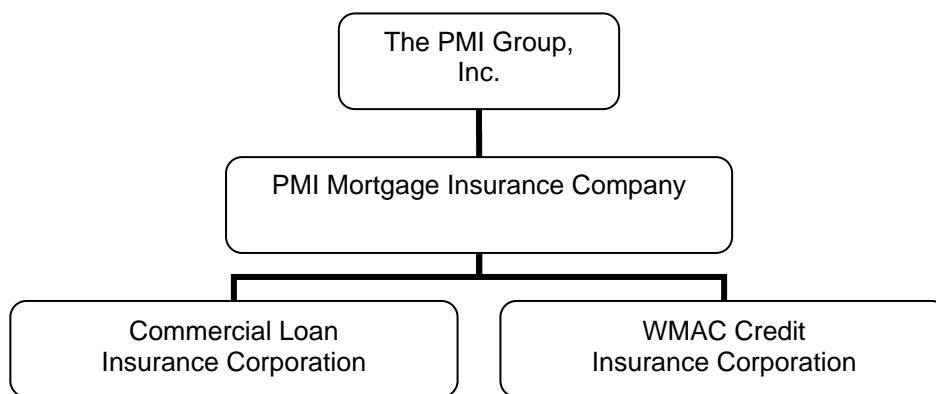
The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the examination there were no committees established by the board.

IV. AFFILIATED COMPANIES

WMAC Credit Insurance Corporation is a member of a holding company system. Its ultimate parent is The PMI Group, Inc. WMAC Credit has no employees and all services are provided under a cost allocation agreement with PMI Mortgage Insurance Company. This agreement is further discussed later in this section.

The organizational chart below depicts the relationships among the noted affiliates in the group. A brief description of the significant affiliates of WMAC Credit follows the organizational chart.

**Organizational Chart
As of December 31, 2002**



The PMI Group, Inc. (TPG)

The PMI Group, Inc., is an insurance holding company organized in December 1993 pursuant to the laws of the State of Delaware. TPG was originally a wholly owned subsidiary of Allstate Insurance Company ("Allstate"), an insurance subsidiary of The Allstate Corporation. In an April 18, 1995, initial public offering, Allstate sold 36.75 million shares of TPG common stock, representing 70% ownership interest of TPG. Subsequent to the 1995 public offering of TPG, Allstate divested all of its remaining 30% ownership interest in TPG through an exchange of 12.9 million shares of TPG common stock to redeem outstanding Allstate exchangeable notes, and through the sale of 2.8 million shares of TPG common stock that remained in Allstate ownership following the Allstate exchange note redemptions.

Through its subsidiary PMI, TPG provides private mortgage guaranty insurance to mortgage lenders in the United States. Other TPG subsidiaries provide mortgage guaranty reinsurance, private mortgage guaranty insurance in Australia and New Zealand, home finance industry risk management products and services, and title insurance.

As of December 31, 2002, TPG's audited financial statements reported total assets of \$3.5 billion, total liabilities of \$1.3 billion, and shareholders' equity of \$2.2 billion. Operations for 2002 produced net income of \$346 million on revenues of \$1.1 billion.

PMI Mortgage Insurance Company (PMI)

PMI Mortgage Insurance Company was incorporated November 10, 1972, as an Arizona stock mortgage guaranty insurance company. From 1973 until 1994, PMI was a wholly owned subsidiary of Allstate Insurance Company; effective November 28, 1994, Allstate contributed all of the outstanding capital stock of PMI to TPG.

PMI writes residential mortgage guaranty insurance, providing primary insurance coverage on first lien mortgage loans and, beginning in 1997, providing a government sponsored mortgage pool insurance product that is used as an element of credit enhancement for secondary market mortgage loan securities transactions. PMI is licensed to engage in mortgage guaranty insurance in all 50 states and in the District of Columbia.

As of December 31, 2002, PMI's audited statutory financial statements reported total admitted assets of \$2.7 billion, total liabilities of \$2.4 billion, and policyholders' capital and surplus of \$267 million. Operations for 2002 produced net income of \$353 million on premium revenues of \$550 million.

Commercial Loan Insurance Corporation (CLIC)

Commercial Loan Insurance Corporation ("CLIC") was organized on December 21, 1966, and was purchased by PMI on August 6, 2001. CLIC is licensed to sell mortgage guaranty insurance in all states except Connecticut, Michigan, and New York. CLIC formerly issued mortgage guaranty insurance for loans on commercial property risks. CLIC suspended writing new business in 1985, and its existing book of business is currently in run-off.

As of December 31, 2002, CLIC's statutory financial statement reported assets of \$9,209,756, liabilities of \$1,862,554, and policyholder surplus of \$7,347,202. Operations for 2002 produced net income of \$8,698 on revenues of \$94,027.

Cost Allocation Agreement

This agreement became effective on January 1, 2002, and has a term of five years. Subsequent renewals can be made for terms up to three years at a time. Pursuant to the agreement PMI provides financial, accounting and reporting services, legal services, banking and investment services, other administrative services and management services to WMAC Credit. In consideration for the services provided, WMAC Credit agrees to reimburse PMI for its estimated annual costs, which were set forth as \$12,000 in the agreement. The amount shall be reimbursed by WMAC Credit in equal quarterly installments. Either party may terminate this agreement at any time by giving 90 days prior written notices. This agreement was inadvertently left out of the company's Form B filing and was not filed with this office for review 30 days before its effective date. This finding is further discussed in the section of this report captioned "Summary of Current Examination Results."

Tax Allocation Agreement

TPG files a consolidated tax return for affiliates in the holding company group. As of December 31, 2002, WMAC Credit filed under this consolidated tax return. The tax allocation agreement was amended subsequent to fieldwork to add WMAC Credit. Under the agreement, the company's tax liability shall equal its tax liability calculated on an individual basis. On each date on which a quarterly payment of estimated tax is due, each affiliate pays an estimated tax payment calculated by TPG. Ultimate settlement of the annual tax liability is made within 30 days of TPG filing the consolidated return.

V. REINSURANCE

The company does not cede or assume insurance risks, and is not party to any reinsurance treaties.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

WMAC Credit Insurance Corporation
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$4,740,722	\$	\$4,740,722
Cash	(19,542)		(19,542)
Short-term investments	123,000		123,000
Federal and foreign income tax recoverable and interest thereon	12,128	6,695	5,433
Interest, dividends, and real estate income due and accrued	<u>51,185</u>	<u> </u>	<u>51,185</u>
Total Assets	<u>\$4,907,493</u>	<u>\$6,695</u>	<u>\$4,900,798</u>

WMAC Credit Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses	\$ 2,425	
Loss adjustment expenses	485	
Other expenses (excluding taxes, licenses, and fees)	1,262	
Federal and foreign income taxes	41,439	
Unearned premiums	574	
Amounts withheld or retained by company for account of others	49	
Payable to parent, subsidiaries, and affiliates	1,822	
Payable for securities	<u>29,123</u>	
 Total Liabilities		 \$ 77,179
 Common capital stock	 1,000,000	
Gross paid in and contributed surplus	39,000,000	
Unassigned funds (surplus)	<u>(35,176,381)</u>	
 Surplus as Regards Policyholders		 <u>4,823,619</u>
 Total Liabilities and Surplus		 <u>\$4,900,798</u>

WMAC Credit Insurance Corporation
Summary of Operations
For the Year 2002

Underwriting Income

Premiums earned	\$ 1,328
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Deductions:

Other underwriting expenses incurred	<u>15,669</u>
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Net underwriting gain or (loss)	(14,341)
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Investment Income

Net investment income earned	<u>30,121</u>
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Net income (loss) after dividends to policyholders but before federal and foreign income taxes	15,780
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Federal and foreign income taxes incurred	<u>41,352</u>
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Net Loss	<u><u>\$(25,572)</u></u>
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WMAC Credit Insurance Corporation
Cash Flow
As of December 31, 2002

Premiums collected net of reinsurance	\$ 1,201	
Deduct:		
Underwriting expenses paid	<u>14,469</u>	
Cash from underwriting		\$ (13,268)
Net investment income		190,764
Deduct:		
Federal income taxes paid (recovered)	<u>(36,193)</u>	
Net cash from operations		\$ 141,303
Proceeds from investments sold, matured, or repaid:		
Bonds	293,219	
Miscellaneous proceeds	<u>29,123</u>	
Total investment proceeds		322,342
Cost of investments acquired (long-term only):		
Bonds	<u>884,256</u>	
Net cash from investments		(561,914)
Cash applied for financing and miscellaneous uses:		
Net transfers to affiliates	5,976	
Net cash from financing and miscellaneous sources		<u>(5,976)</u>
Net change in cash and short-term investments		(426,587)
Reconciliation		
Cash and short-term investments,		
December 31, 2001		<u>530,045</u>
Cash and short-term investments,		
December 31, 2002		<u>\$103,458</u>

WMAC Credit Insurance Corporation
Policyholders' Position Calculation
December 31, 2002

Surplus as regards policyholders	\$4,823,619	
Contingency reserve	<u>0</u>	
Total policyholders' position		\$4,823,619
Net minimum policyholders' position		
Junior Liens:		
Individual loans:		
Loan-to-value more		
than 75%	<u>\$1,847</u>	
Total individual loan junior liens	<u>1,847</u>	
Minimum policyholders' position		<u>1,847</u>
Excess of total policyholders' position		
over minimum policyholders' position		<u>\$4,821,772</u>

**WMAC Credit Insurance Corporation
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2002**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000	1999	1998
Surplus, beginning of year	\$4,894,805	\$4,525,430	\$4,395,252	\$4,251,408	4,066,785
Net income	(25,572)	120,930	87,360	93,767	130,087
Net unrealized capital gains or (losses)		173,881			
Change in net deferred income tax	(124,807)	139,724			
Change in non-admitted assets	79,193	2,566,556	42,818	50,077	54,536
Cumulative effect of changes in accounting principles		(2,789)			
Dividends to stockholders		(2,628,927)			
Surplus, end of year	<u>\$4,823,619</u>	<u>\$4,894,805</u>	<u>\$4,525,430</u>	<u>\$4,395,252</u>	<u>4,251,408</u>

**WMAC Credit Insurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2002**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

Ratio	2002	2001	2000	1999	1998
#1 Gross Premium to Surplus	0.0%	0.0%	0.0%	0.0%	0.0%
#2 Net Premium to Surplus	0.0	0.0	0.0	0.0	0.0
#3 Change in Net Writings	-19.0	6.0	-39.0*	-57.0*	-56.0*
#4 Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5 Two-Year Overall Operating Ratio	0.0	0.0	0.0	0.0	0.0
#6 Investment Yield	0.6*	5.9	6.0	5.5	5.8
#7 Change in Surplus	-1.0	8.0	3.0	3.0	4.0
#8 Liabilities to Liquid Assets	2.0	1.0	0.0	0.0	1.0
#9 Agents' Balances to Surplus	0.0	0.0	0.0	0.0	0.0
#10 One-Year Reserve Devel. to Surplus	0.0	0.0	0.0	-1.0	0.0
#11 Two-Year Reserve Devel. to Surplus	0.0	0.0	-1.0	-1.0	0.0
#12 Estimated Current Reserve Def. To Surplus	0.0	0.0	0.0	0.0	0.0

IRIS ratio No. 3, Change in Net Writings, reflects the increase or decrease in net premium written reported as a percentage of net premiums written in the prior year. The exceptional results in 1998 through 2000 were due to the run-off of the company's existing book of business. The company's total number of policies in effect and total amount of risk in force is decreasing year-to-year, as the

existing portfolio of run-off insurance policies decreases due to the refinancing or maturity of the underlying insured mortgage loans and the nonrenewal of policies. The business has been in run-off since 1985.

IRIS ratio number 6 evaluates the yield on investments compared to annual average cash and invested assets. The company's unusual result in 2002 for ratio number 6 reflects the relatively low investment yield environment that prevailed in the financial markets in 2002.

Growth of WMAC Credit Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2002	\$4,900,798	\$77,179	\$4,823,619	\$(25,572)
2001	4,942,604	47,799	4,894,805	120,930
2000	4,544,631	19,201	4,525,430	87,360
1999	4,416,731	21,479	4,395,252	93,767
1998	4,296,202	44,794	4,251,408	130,087

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2002	\$1,201	\$1,201	\$1,328	0.0%	1,304.7%	1,304.7%
2001	1,478	1,478	1,495	4,266.2	1,818.1	6,084.2
2000	1,391	1,391	1,831	5,310.9	2,572.0	7,883.0
1999	2,270	2,270	3,940	1,574.1	1,448.0	3,022.1
1998	5,314	5,314	8,640	1,033.0	101.8	1,134.7

The company ceased writing new insurance business in 1985 and has been in run-off. Premiums written have decreased during the years under examination as the existing book of policies expire or are terminated due to their non-renewal by the insureds. Expenses relative to written premiums have increased, as the revenue stream that supports the run-off operations is decreasing year-to-year. Currently, the company does not plan to write any new business in the future. The company indicated that any changes regarding its intention to write new business would be filed with this office.

Reconciliation of Surplus per Examination

The current examination did not make any reclassifications of account balances or adjustments to surplus.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control— It is recommended that the company's shareholders and board of directors conduct executive meetings and oversight of the affairs of the company in conformity to the company's articles of incorporation and by-laws. It is further recommended that the shareholders conduct meetings not less frequently than annually for the election of directors, and that directors conduct meetings not less frequently than quarterly, at which meetings the board exercise its authority to elect officers, review and approve or otherwise act upon company investment activity, and conduct such additional executive functions on behalf of the company as are permitted by the articles and by-laws and necessary for the executive management of the affairs of the company.

Action—Compliance.

Summary of Current Examination Results

Bylaws

Examination review of the bylaws noted that the bylaws did not reflect the actual practices of the company and were not updated when PMI purchased the company. The following items were noted:

- The company's bylaws stated the principal offices shall be Milwaukee, Wisconsin. This should be changed.
- The company's bylaws state that the annual meeting shall be held the third Monday in April. Review of the minutes indicated the annual meeting has been held in May.

It is recommended the company abide by or amend its bylaws to reflect actual practices of the company.

Executive Compensation

The examination review of the Wisconsin Report on Executive Compensation (Form 22-060) for 2002 noted that the company is not reporting all compensation as instructed and that the company is completing the NAIC Supplemental Compensation Exhibit in place of the Wisconsin Report on Executive Compensation annual supplement. It is noted that the directions for the NAIC Supplemental Exhibit and those for the Wisconsin Report of Executive Compensation vary slightly and the company should be reporting compensation to this office on the required annual supplement. The amounts reported on the form also excluded the amounts for executive stock options. It is recommended that the company complete the Wisconsin Report on Executive Compensation (Form 22-060) in accordance with its instructions.

Biographical Reports

Pursuant to s. Ins 6.52, Wis. Adm. Code, the biographical data relating to company officers and directors should be filed with this office within 15 days after such appointment or election. As part of the examination, biographical reports were requested for WMAC Credit board of directors as well as documentation from the company stating they were filed with this office pursuant to s. Ins 6.52, Wis. Adm. Code. Biographical reports were provided for the current directors, however, they were completed during the fieldwork portion of this examination. In addition, the reports of the two newly elected directors in 2003 were not filed with this office within the 15 day time frame established by s. Ins 6.52,

Wis. Adm. Code. It is recommended that the company file biographical reports on its directors within 15 days of election pursuant to s. Ins 6.52, Wis. Adm. Code.

Affiliated Agreements

TPG prepares a consolidated tax return for its subsidiaries pursuant to a tax allocation agreement. At year-end 2002, WMAC Credit filed a consolidated tax return with TPG. Examination review noted that the tax allocation agreement was not amended to include WMAC Credit as being a party to the tax allocation agreement. Pursuant to Statement of Statutory Accounting Principles (SSAP) No. 25, there should be an existing tax allocation agreement to file a consolidated tax return. The tax allocation agreement would also be subject to nondisapproval by the Office of the Commissioner of Insurance (OCI) pursuant to the holding company laws of ch. Ins 40, Wis. Adm. Code. Subsequent to fieldwork, the company made the appropriate filing with this office including the tax allocation agreement and an amendment to make WMAC Credit a party to the agreement.

In addition, WMAC Credit operates under a cost allocation agreement with PMI for services provided which is subject to nondisapproval by the OCI pursuant to ch. Ins 40, Wis. Adm. Code. This agreement was submitted for review in a Form D filing dated June 16, 2003, and was effective January 1, 2002. Section Ins 40.04(2), Wis. Adm. Code, requires that subject affiliated transactions be reported to the commissioner 30 days prior to the proposed effective date. In addition, this agreement was not included in the annual Holding Company Registration Statement (Form B) filed with this office. It is recommended the company comply with the holding company regulations of ch Ins. 40, Wis. Adm. Code, in the future.

Custodial Agreement

Article VI, paragraph 1(a) of the custodial agreement between WMAC Credit and BNY Western Trust Company stated that "the custodian's responsibility with respect to any securities or cash held by a subcustodian is limited to the failure on the part of custodian to exercise reasonable care in the selection or retention of such subcustodian in light of prevailing settlement and securities handling practices, procedures and controls in the relevant market." The definition of reasonable care is vague and this clause releases the subcustodian from indemnification to the insurer for any loss of securities as a result of negligence or dishonesty. The agreement only makes the custodian responsible for

indemnification to the insurer if the subcustodian is an affiliate to the custodian. If the custodian were to place the securities with a non-affiliated custodian, no indemnification is provided. The company should amend its custody agreement to provide that the custodian indemnify WMAC Credit for any loss of securities in the account as a result of the negligence or dishonesty of the officers or employees of custodian and subcustodian, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction. It is recommended that the company amend its custodial agreement to provide indemnification against the securities that may be held by a subcustodian pursuant to the language suggested by the NAIC Financial Examiner's Handbook.

Investments

The company was not reporting the CUSIP number for its short-term investment in Schedule DA, Part 1 of the annual statement. It is recommended that the company complete Schedule DA, Part 1 in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

VIII. CONCLUSION

WMAC Credit Insurance Corporation's financial statements as of December 31, 2002, reported total admitted assets of \$4,900,798, total liabilities of \$77,179, and policyholders' capital and surplus of \$4,823,619. No reclassifications or adjustments were made to surplus as a result of the examination.

PMI Mortgage Insurance Company purchased WMAC Credit on August 6, 2001, from WMAC Investment Corporation. The company suspended writing new business in 1985, and its current business consists entirely of renewal coverages on previously written policies. The company continues to run-off its existing book of business. As of December 31, 2002, the company had 43 policies in force.

The company complied with the prior examination recommendation. The current examination resulted in six recommendations as summarized on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Bylaws—It is recommended the company abide by or amend its bylaws to reflect actual practices of the company.
2. Page 22 - Executive Compensation—It is recommended that the company complete the Wisconsin Report on Executive Compensation (Form 22-060) in accordance with its instructions.
3. Page 23 - Biographical Reports—It is recommended that the company file biographical reports on its directors within 15 days of election pursuant to s. Ins 6.52, Wis. Adm. Code.
4. Page 23 - Affiliated Agreements—It is recommended the company comply with the holding company regulations of ch Ins. 40, Wis. Adm. Code, in the future.
5. Page 24 - Custodial Agreement—It is recommended that the company amend its custodial agreement to provide indemnification against the securities that may be held by a subcustodian pursuant to the language suggested by the NAIC Financial Examiner's Handbook.
6. Page 24 - Investments—It is recommended that the company complete Schedule DA, Part 1 in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ryan Hanson	Insurance Financial Examiner
Amy Wolff	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced

Respectfully submitted,

Danielle C. Rogacki
Examiner-in-Charge